

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

HB 24 - SB 127

April 13, 2015

SUMMARY OF ORIGINAL BILL: Creates the “Go Build Tennessee Act (GBTA).” The GBTA will be administered by an entity approved by the Internal Revenue Service as a tax-exempt, nonprofit corporation. The Board for Licensing Contractors (Board) will create a “Go Build Account (GBA)” for the purpose of funding the GBTA. A minimum 50 percent of total revenue derived from licensed contractor permit fees will be transferred to the GBA, to be invested by the State Treasurer for the sole benefit of the account. Following the first full quarter after the effective date of this act, the Board will transfer revenue from the GBTA to the nonprofit corporation. This corporation will use such GBTA funds and, in addition, receive funds from individuals, businesses, governmental entities, foundation grants and the state to promote and encourage the recruitment of potential construction workers and to develop and create training programs and opportunities for new, skilled construction workers in this state. The corporation is required to submit an annual report to the Governor, Speaker of the Senate, and Speaker of the House of Representatives. The corporation will be audited annually by the Comptroller of the Treasury.

FISCAL IMPACT OF ORIGINAL BILL:

Increase State Expenditures - Exceeds \$1,173,800/GBA

Other Fiscal Impact - This legislation may result in a change in the number of licensees regulated by boards under the Division of Regulatory Boards and subsequently, the amount of fee revenue collected by such boards. Due to various unknown factors, any net increase in the number of licensees or fee revenue is indeterminable.

In the absence of this legislation, funds that will be allocated to the GBTA would be available to the Board for Licensing Contractors (Board) for the purpose of regulating the contractor and home improvement professions. Pursuant to Tenn. Code Ann. § 4-29-121, all regulatory boards are required to be self-supporting over any two-year period. Should the Board fail to collect adequate fee revenue to cover its administrative expenses, it will adjust fee amounts as necessary.

IMPACT TO COMMERCE OF ORIGINAL BILL:

Should the Board fail to collect adequate fee revenue to cover its administrative expenses, it will adjust fee amounts as necessary, which consequently will result in an increase in a tax-deductible business expense for contractors equal to the increase. Any

such increase in individual business expenses is reasonably estimated to be not significant.

SUMMARY OF AMENDMENTS (005657, 005761, 006179): Amendment 005657 deletes all language after the enacting clause. Creates the “Go Build Tennessee Act (GBTA).” The GBTA will be administered by an entity approved by the Internal Revenue Service as a tax-exempt, nonprofit corporation. The Board for Licensing Contractors (Board) will create a “Go Build Account (GBA)” for the purpose of funding the GBTA.

The GBTA will be funded through the following mechanisms:

- An annual transfer from the Board of at least 50 percent of the total fiscal year fund balance of the Board, resulting from contractor licensing revenue, net of expenditures; and
- A one-time transfer of \$1,750,000 from the Board’s ending cumulative reserve balance on June 30, 2015.

This corporation will use such GBTA funds and, in addition, receive funds from individuals, businesses, governmental entities, foundation grants and the state to promote and encourage the recruitment of potential construction workers and to develop and create training programs and opportunities for new, skilled construction workers in this state. The corporation is required to submit an annual report to the Governor, Speaker of the Senate, and Speaker of the House of Representatives that includes a statement of operations. Such report must be submitted within 90 days of the corporation’s fiscal year end. An independent audit of the corporation will be conducted annually by a certified, independent public accountant, which shall be paid by fees collected by the corporation.

These provisions will be repealed on July 1, 2019, thereby ending the GBTA at the end of the FY18-19 fiscal year.

Amendment 005761 specifies the funds collected from fee revenues and allocations from Board reserves may only be used to fund career and technical education programs to encourage and promote career opportunities in the construction industry that are in public secondary schools in this state, the Tennessee College of Applied Technology, and other community colleges in this state.

Amendment 006179 specifies the types of expenditures the corporation may include in their contractual and promotional agreements necessary to effectively stimulate the program.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENTS:

**Increase State Expenditures - \$1,750,000/One-Time/Board for Licensing Contractors
(BLC)**

Exceeds \$224,200/Recurring/FY15-16 – FY18-19/BLC

Other Fiscal Impact - This legislation may result in a change in the number of licensees regulated by boards under the Division of Regulatory Boards and subsequently, the amount of fee revenue collected by such boards. Due to various unknown factors, any net increase in the number of licensees or fee revenue is indeterminable. On July 1, 2019, the GBTA will be repealed. This legislation does not specify how any GBA funds remaining in the account will be allocated.

In the absence of this legislation, funds that will be allocated to the GBTA would be available to the Board for Licensing Contractors (Board) for the purpose of regulating the contractor and home improvement professions. Pursuant to Tenn. Code Ann. § 4-29-121, all regulatory boards are required to be self-supporting over any two-year period. Should the Board fail to collect adequate fee revenue to cover its administrative expenses, it will adjust fee amounts as necessary.

Assumptions for the bill as amended:

- The Board will, upon the first full quarter following the effective date of this act, transfer revenue from the GBA to a nonprofit corporation, created solely to effectively implement, administer, and manage this program.
- Any funds remaining after all costs have been incurred by the corporation in accomplishing the purposes of this act will not revert to the General Fund but remain in the GBA.
- In FY13-14, Board revenue, net of expenditures, was \$448,356.
- This legislation would allocate at least half of this amount or \$224,178 to the GBA on the first quarter of FY15-16 and every subsequent year through FY18-19 (\$448,356 x 0.50).
- This legislation would require a one-time transfer of \$1,750,000 from the reserve balance of the Board on June 30, 2015. On June 30, 2014, the ending balance of the Board's reserve account was \$3,521,368.
- Secondary impacts may impact the Division of Regulatory Boards, as this legislation, through increased awareness, promotion to training and subsequent job opportunities could result in an increase in skilled trade workers and, therefore, new applicants to various boards within the Division. Any new licensees could affect the employment status of current licensees; however, this legislation is not assumed to result in any significant change in the number of construction projects that would take place absent of this legislation. Any new licensees created as a result of this legislation are assumed to be offset by a reduction in the number of current licensees. Due to various unknown factors, any net increase in licensee and subsequently, fee revenue, is indeterminable.
- On July 1, 2019, the GBTA will be repealed. This legislation does not specify how any GBA funds remaining in the account will be allocated.
- Pursuant to Tenn. Code Ann. § 4-29-121, all regulatory boards are required to self-supporting over any two-year period. The Board of Licensing Contractors had an annual surplus of \$384,805 in FY12-13, an annual surplus of \$553,645 in FY13-14, and a cumulative reserve balance of \$3,521,368 on June 30, 2014.

IMPACT TO COMMERCE WITH PROPOSED AMENDMENTS:

Other Commerce Impact - Should the Board fail to collect adequate fee revenue to cover its administrative expenses, it will adjust fee amounts as necessary, which consequently will result in an increase in a tax-deductible business expense for contractors equal to the increase. Any such increase in individual business expenses is reasonably estimated to be not significant.

Assumptions for the bill as amended:

- Based on the United States Department of Labor, Bureau of Labor Statistics, the number of unemployed in the construction industry nationwide has decreased by 2.5 percent since January 2014 from 1,045,000 to 811,000. This implies that construction industry jobs are increasing nationwide.
- The program is designed to attract and increase career opportunities in the construction industry for secondary and postsecondary students. There are a number of unknown factors including: the number of students who will partake in the training and succeed; what type of agreements the not-for-profit corporation will enter into with the construction industry to provide jobs and training; the types of jobs that will be available for individuals who successfully complete the program; and the timeframe in which the program will be fully implemented.
- It is assumed that the construction industry will base its hiring decisions on a number of factors related specifically to each individual company including particular needs, salary demands, operational expenditures, and profits. Decisions will not be made solely as a result of the proposed legislation.
- If the number of open positions is greater than the hiring pool, than the proposed program could increase the hiring pool. If the hiring pool is greater than the available number of open positions, then there could be a shift in hires to trainees from the program which could result in higher salary demands depending on the training and level of expertise.
- Due to these unknowns, an exact impact to commerce cannot be reasonably determined.
- There may be additional construction projects undertaken within this state that would not have occurred in the absence of this bill. If additional construction jobs are created, and if income for construction jobs increase, there may be secondary economic impacts that cannot be reasonably quantified as they are dependent upon multiple unknown factors.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Jeffrey L. Spalding, Executive Director

/jdb